Module 9 · MSME: MSMED Act, 2006 and schemes

P13 · Section B · topics 9.1–9.2

SM pp. 369–384 (16 pages). **32.5 marks in 7 papers.** A **classification MCQ** in 4 papers running (the limits changed on **1 April 2025**); long questions on **delayed payment** (Jun'24, Dec'24) and **schemes** (Jun'23). Section numbers the SM does not print are taken from the Act.

Paper	What was asked	Marks
Jun'23	MCQ: **NSIC** = National Small Industries Corporation (= SM MCQ 1) · Q7(a) **Digital MSME scheme** and **ECLGS**	2 + 8
Dec'23	nothing	0
Jun'24	MCQ: **medium** limits: ₹50 cr investment / ₹250 cr turnover (the 2020 limits, option A) · Q7(c) **time limit for paying MSMEs** and the consequences of delay	2 + 4
Dec'24	Q8(a) **delayed payment**: interest, disallowance, and **disclosure** in the buyer's financial statements	7
Jun'25	MCQ: a unit that moves up a category keeps **non-tax benefits for 3 years** (C) · Q7(b)(i) **MSME definition and classification**	2 + 3.5
Dec'25	MCQ: the same **3 years** question (B)	2
Jun'26	MCQ: investment ₹130 cr, turnover ₹510 cr → **none of the above** (above the 2025 medium limits)	2

HOW IT IS EXAMINED · DEC'26 PREDICTION

- **MCQ (x)–(xv): about 50%** chance of a numeric classification question using the **2025 limits**. Learn the table below: test each limit, and the **higher** category wins.
- A long question is unlikely (about 5%); if one comes, it is **delayed payment** (45 days, 3× bank rate, disclosure, disallowance).

MAP

1. Definition and 2025 classification ★★★
2. Delayed payment s.15–23 ★★★
3. National Board, Advisory Committee, MSEFC ★
4. Promotion measures, funds, schemes ★★
5. Model answers · SM exercise

9.1 Definition and classification · Jun'24, Jun'25, Dec'25, Jun'26 MCQs

The **MSMED Act, 2006** gave the first legal framework for the concept of an "**enterprise**" covering both **manufacturing and services**, a statutory consultative mechanism, dedicated funds, credit policies, **procurement preference**, remedies for **delayed payments**, and a scheme to ease **closure**. Promotion is primarily the **State Governments'** job; the Centre supplements it. The sector has **3.6 cr** units and **8 cr** employees (second only to agriculture): **45%** of industrial output, **40%** of exports, **37%** of GDP. [SM 371]

Composite criteria	Micro	Small	Medium
SM (from 1 July 2020): investment / turnover	≤ ₹1 cr / ≤ ₹5 cr	≤ ₹10 cr / ≤ ₹50 cr	≤ ₹50 cr / ≤ ₹250 cr [SM 371]
From 1 April 2025 (Jun'26 supplementary)	**≤ ₹2.5 cr / ≤ ₹10 cr**	**≤ ₹25 cr / ≤ ₹100 cr**	**≤ ₹125 cr / ≤ ₹500 cr** [Supp Jun'26]

HOW TO CLASSIFY

- **Both** limits must be met for a category; if **either** is exceeded, the unit moves to the next category. (The Act's rule, implied by "composite".)
- **Investment** in plant, machinery or equipment is linked to the **previous year's ITR** (else self-declaration); tangible assets **other than land and furniture and fittings** (SM MCQ 3). [SM 372]
- **Turnover excludes exports** (SM MCQ 4) and is linked to income-tax and GST returns. [SM 372]
- A unit that moves to a higher category, or out of MSME, keeps its **non-tax benefits for the next 3 years** (Jun'25, Dec'25 MCQ). [SM 372]

WORKED MCQs (2025 LIMITS)

- Jun'26: ₹130 cr / ₹510 cr → both exceed medium → **not an MSME** (D).
- SM MCQ 2: ₹55 cr / ₹300 cr → key (d) "none" under the **2020** limits; under the **2025** limits it is **medium**. Read the question's date.
- ₹3 cr investment / ₹8 cr turnover → investment exceeds micro → **small**.
- The supplementary also says existing units kept their status until **31 March 2025** (reverse graduation).

9.2 Delayed payment to micro and small enterprises · Jun'24 Q7(c), Dec'24 Q8(a)

THE SM'S RULE (s.15–16, 22)

- **Appointed day**: the day after **15 days** from the buyer's (deemed) receipt of goods or services. **Day of acceptance**: the day of actual delivery or performance, or, if the buyer objects in writing **within 15 days**, the day the supplier removes the objection. **Deemed acceptance**: no written objection within 15 days. [SM 374]
- Payment may not exceed **45 days** from the day of acceptance or deemed acceptance. Otherwise the buyer pays **compound interest with monthly rests**, from the appointed day (or the agreed date), at **three times the bank rate** notified by the RBI. [SM 377]
- A buyer whose accounts are audited discloses the **principal and interest unpaid** to any supplier at the end of each year; this **interest is not deductible** from income. [SM 377]
- Companies with dues to MSEs **outstanding 45 days or more** file a **half-yearly return with the MCA** (2 Nov 2018). Suppliers may complain on the **MSME Samadhan** portal. [SM 379]
- **Disputes (s.18)**: a reference to the **Micro and Small Enterprises Facilitation Council**, which conciliates (itself or through an ADR centre) and, if that fails, **arbitrates**; it covers a supplier in its jurisdiction and a buyer **anywhere in India**; decided within **90 days**. [SM 376]

⚠ WHAT DEC'24 Q8(a) ALSO NEEDED (NOT IN THE SM)

- **s.15**: any written agreement on payment terms may not exceed **45 days**; with no agreement, pay before the **appointed day**.
- **s.22 disclosure** in the buyer's annual accounts: (i) **principal and interest unpaid** at year-end, shown separately; (ii) **interest paid under s.16**, with the amounts paid **after the appointed day**; (iii) interest **due and payable for the period of delay** (paid late but without interest); (iv) interest **accrued and remaining unpaid** at year-end; (v) **further interest** remaining due in later years until it is actually paid, for disallowance under s.23. Schedule III also asks for MSME dues to be shown separately.
- **s.23**: interest payable under s.16 is **not deductible** under the Income-tax Act.
- **Income-tax s.43B(h)** (from FY 2023-24): a payment due to a micro or small enterprise is deductible **only in the year it is actually paid** if it is paid after the s.15 time limit.
- **Registration**: the SM's "memorandum" was replaced from 1 July 2020 by online, free **Udyam Registration** on self-declaration.

9.2 Bodies, promotion measures and funds · SM short essay 2

- **s.9 promotion**: the CG may notify programmes for competitiveness, **skills**, management, **technology upgradation**, marketing, infrastructure, **cluster development**, backward and forward linkages; **s.10** smooth credit; **s.11 procurement preference** (notified 23 March 2012). [SM 373, SM 377, SM 379]
- **Ministry of MSME**: the apex policy body (SM T/F 1: not the Ministry of Commerce). Formed from the SSI and Agro and Rural Industries ministries (created October 1999). [SM 373]
- **National Board (s.3)**, HQ Delhi: the MSME **Cabinet Minister** chairs; the MoS is vice-chair; **six** State ministers; **three** MPs (two Lok Sabha, one Rajya Sabha); secretaries; heads of NABARD, SIDBI, IBA; an RBI Executive Director; **20** association members (at least 3 women's, 3 micro); 3 eminent persons (one a woman); 2 trade-union members. Meets at least once every **3 months**. [SM 374–375]
- **Board's functions**: examine factors affecting MSME growth and review Government policies; make **recommendations**; **advise the CG on use of the Fund**. [SM 375]
- **Advisory Committee (s.7)**: the MSME Secretary chairs; up to **five** CG officers; up to **three** State representatives; one representative each of MSME associations; the Board's Member-Secretary. The CG must take its recommendations before classifying enterprises. [SM 376–377]
- **Facilitation Councils (s.20–21)** set up by the State Government: **three to five** members: the Director of Industries, MSE association office-bearers, bank representatives, experts. [SM 377–378]
- **Funds (s.12–14)**: notified funds, credited with CG grants, used **exclusively for MSMEs**. [SM 377]
- **Revival framework** (27 May 2015): banks form committees to restructure stressed MSME loans. Single-window registration via the Champions control room and DICs. [SM 379]

Scheme or body	What the SM says
NSIC (1955)	**National Small Industries Corporation**: promotes micro and small enterprises on a commercial basis: raw materials, marketing, **credit rating**, technology, management [SM 380]
Digital MSME ★	promotes **ICT** in MSMEs' production and business: **ERP**, accounting, manufacturing design, **GST compliance**; awareness, e-platforms, digital literacy, training and **digital marketing** [SM 380]
ECLGS ★	COVID-19 scheme: **100% guarantee** to banks and NBFCs for emergency credit (additional term loan or working capital); extended to **31 March 2022**; interest capped at **9.25%** (banks) and **14%** (NBFCs); tenure **4 years**; principal moratorium **12 months** [SM 380]

SIDBI Secured Business Loan	term loan up to **₹10 crore**, repayment up to **10 years** including moratorium; foreign-currency assistance [SM 380]
PMEGP	credit-linked subsidy for **employment** through new micro-enterprises, rural and urban [SM 381]
Others	reservation and easier licensing; International Cooperation Scheme (trade delegations); NIESBUD training
COVID package	₹3 lakh crore emergency working capital (**20%** of credit outstanding on 29 Feb 2020); **₹20,000 crore** subordinate debt for **2,00,000** stressed MSMEs, with ₹4,000 crore to CGTMSE; promoters get **15%** of their stake, up to **₹75 lakh**; Fund of Funds of **₹10,000 crore** to mobilise **₹50,000 crore** of equity [SM 381]

M Model answers

MODEL ANSWER 1 · DELAYED PAYMENT: TIME LIMIT, INTEREST, DISALLOWANCE, DISCLOSURE (DEC'24 Q8(a), JUN'24 Q7(c)) · 7 MARKS

(1) **Time limit (s.15)**: by the agreed date, never more than **45 days** from acceptance or deemed acceptance; with no agreement, before the **appointed day** (15 days). Define acceptance and deemed acceptance. (2) **Interest (s.16)**: **compound with monthly rests** at **three times the RBI bank rate**, from the appointed day or agreed date. (3) **Disallowance**: that interest is **not deductible** (s.23); and under s.43B(h) a late payment itself is deductible only when paid. (4) **Disclosure (s.22)**: the five items in the ⚠ box. (5) **Recovery**: reference to the **MSEFC** (conciliation, then arbitration, within 90 days); half-yearly MCA return; MSME Samadhan. [SM 374, SM 376–377, SM 379]

MODEL ANSWER 2 · SM SOLVED CASE: BALARAM'S RUBBER-SPARES FIRM

Facts as printed: a proprietorship making rubber spares; turnover ₹342 crore; plant and machinery about ₹93 lakh; GST-registered, not DIC-registered. **SM answer:** (i) **micro** enterprise; (ii) registration is **not compulsory**, but benefits need it; (iii) register with the **District Industries Centre**; (iv) benefits: **loans, moratorium on repayment, tax holidays, price preference** in Government purchases. [SM 383–384]

⚠ The SM's category is wrong for the figures it prints: with turnover of ₹342 crore the unit exceeds the micro turnover limit, so it is **not micro** (2020 limits: above medium too, so not an MSME; 2025 limits: **medium**). The SM probably meant ₹3.42 crore. Today registration is online on the **Udyam** portal. In the exam, apply the limits to the figures given.

The SM's own exercise for MSME (SM 382–384)

MCQs: 1 NSIC = **National Small Industries Corporation** ★ · 2 ₹55 cr / ₹300 cr = **none** (2020 limits; medium under 2025) ⚠ · 3 excluded from investment: **land and furniture and fittings** · 4 excluded from turnover: **exports**. **True/False:** apex body is the Ministry of Industry and Commerce **F** · basis is investment and turnover **T** · a CG licence is needed to start an MSME **F** · delayed payments are reported in companies' annual reports **T** · banks give subordinate loans 15% above limits **T** (key; the SM text says 15% of the promoter's stake). **Fill-ins:** micro threshold **₹1 crore** (now ₹2.5 crore) · interest if delayed beyond **45** days · **National Small Industries Corporation** · **₹20,000 crore** subordinate debt · SIDBI = **Small Industries Development Bank** of India · **15**% · PMEGP relates to **employment** · ECLGS = **Emergency Credit Line Guarantee Scheme** · SBL up to **₹10 crore**. [SM 382–384]

R Revision: numbers

Rule	Number	Rule	Number
micro / small / medium (2025): investment	₹2.5 / 25 / 125 cr	objection to goods or services within	15 days
micro / small / medium (2025): turnover	₹10 / 100 / 500 cr	maximum credit period	45 days
non-tax benefits after moving up	3 years	interest on delay	3 × bank rate, monthly compound
National Board meets at least every	3 months	MSEFC decides within	90 days
MSEFC members	3 to 5	ECLGS rate cap banks / NBFCs	9.25% / 14%
Board: State ministers / MPs / associations	6 / 3 / 20	ECLGS tenure / moratorium	4 yrs / 12 months